

FY 2006 Revenues

General Fund Revenue

City revenues are divided into six basic categories: taxes, charges for services, licenses and permits, fines and forfeits, intergovernmental revenue and miscellaneous revenue. The following is a discussion of the City's revenue estimates and revenue budget for FY 2006.

Real and Personal Property Taxes

A major source of general fund revenue for the City is property taxes. Real property includes land and buildings and improvements erected or affixed to land. Personal property consists of stock, inventory, furniture, fixtures and machinery of certain businesses. The Board of Assessors determines the value of taxable land, which is revalued at fair market value every three years and updated every year. The Board of Assessors is also responsible for determining the value of personal property through an annual review process.

Proposition 2 ½ (MGL Chapter 59 Section 21 c) was passed by Massachusetts voters in 1980 and places a limit on the amount of property taxes that a municipality can levy each year. The City cannot increase the levy in excess of 2.5% of the total full and fair cash value of all taxable real and personal property. The City is also constrained in the amount it can increase from one year to the next; this is the known as the levy limit. In addition, the City has no excess levy capacity, meaning that it is taxing to the levy limit.

The factors that determine the FY 2006 real and personal property tax revenue are:

1. The automatic 2.5% increase. The levy limit is the maximum amount that can be collected through real and personal property taxes by the municipality. Each year the City's levy limit increases by 2.5% over the previous year's levy limit. This increase is \$3,276,054 for FY 2005.
2. New Growth – New growth represents new construction and building in the City and these values are added to the current values to increase the tax levy limit. The assessors are required to submit various reports to the Department of Revenue in order to receive certification of new growth, normally in November or December before the setting of the tax rate and submittal of the Tax Recap Sheet. At time of the submittal of this budget, new growth is an estimated number. Based on recent trends and the opinion of the Board of Assessors new growth for FY 2006 is estimated to be \$1,000,000.
3. Tax Collection Rate - Based on the City's historically low collection rate and the FCB's policy for conservatism in determining FY 2006's tax revenues, the forecasted property tax revenues are reduced by the estimation of a collection rate of 97%.

In light of the automatic 2.5% increase, estimated new growth and the 97% forecasted collection rate, the total real and personal property taxes for FY 2006 are \$124,759,672, an increase of \$7,497,580.

Motor Vehicle Excise Tax

The Massachusetts General Law Chapter 60A sets the motor vehicle excise rate at \$25 per \$1,000 of valuation. The City collects these monies based on information provided by the Registry of Motor Vehicles. Motor Vehicle excise bills are determined using a statutory formula based on a manufacturer's list price and year of manufacture. Motor vehicle owners that do not pay their bills will not be allowed to renew their registrations and licenses by the Registry of Motor Vehicles.

This revenue source has increased gradually in recent years and it is estimated to be consistent with the FY 2005 budgeted amount in the interest of conservatism in the revenue budget with recognition of the need to build reserve capacity.

Revenue derived from excise tax may be used for any lawful purpose.

Penalties and Delinquent Interest

This category includes delinquent interest on all taxes and tax title accounts. It also contains demand fees on real and personal property taxes as well as demands and warrants on late motor vehicle excise taxes.

The City receives interest on overdue taxes; interest rates for overdue real and personal property taxes are 14% and for tax title accounts it is 16%. The interest rate for delinquent motor vehicle excise taxes is 12%. This category of revenue is estimated at \$2.0 million.

Payments in Lieu of Taxes (PILOT)

Many federal and state facilities, hospitals, colleges and religious institutions are exempt from local property taxes. The City has an "in lieu of tax" payment program, which was implemented to provide for a portion of the tax revenue that otherwise would be collected from these properties. The City has negotiated several PILOT payments with various institutions. This category of revenue is budgeted at \$6.2 million consistent with FY 2005 and based on agreements in place. It should be noted that the members of the FCB consider this issue to be unresolved for many of the largest not-for-profit institutions in the City.

Intergovernmental Revenue

State Aid (Cherry Sheet)

State funds are the single largest source of revenue to the City and in FY 2006 they comprise 63% of its revenue budget. Cherry sheet revenue consists of school aid (Chapter 70), Lottery Aid and Additional Assistance as well as specific reimbursements and distributions such as veterans' benefits, police career incentives, elderly and other exemptions. The City's FY 2006 budget state aid revenue estimates are based on the Senate Final budget for aid to Springfield.

Major state Cherry Sheet revenues are:	ACTUAL REVENUES	ESTIMATED REVENUES	ESTIMATED REVENUES
DESCRIPTION	FY 04	FY 05	FY 06
CHAPTER 70	\$208,406,858	\$215,632,819	\$225,364,023
SCHOOL CONSTRUCTION	20,146,709	19,370,326	19,201,404
SCHOOL LUNCH CH. 871 (OFFSET)	173,031	168,004	165,149
RACIAL EQUALITY (OFFSET)	24,135	27,680	27,680
CHARTER SCHOOL CAPITAL REIMB	0	1,173,844	1,188,275
CHARTER TUITION ASSMT REIMB	428,695	320,219	748,967
SCHOOL CHOICE RECEIVING TUITION (OFFSET)	5,000	0	64,045
Sub-Total, All Education Items:	229,184,428	236,692,892	246,759,543
LOTTERY	28,974,118	28,974,118	34,917,280
NON-RECURRENT LOTTERY AID	0	4,185,177	0
ADDITIONAL ASSISTANCE	1,829,496	1,829,496	1,829,496
EXEMPTIONS; ELDERLY	137,548	137,548	133,030
URBAN RENEWAL PROJECTS	27,588	53,500	53,500
STATE OWNED LAND	6,817	10,666	12,875
EXEMPTIONS; VETS; BLIND	0	193,033	191,733
PUBLIC LIBRARY	0	78,700	78,700
HIGHWAY FUND	0	0	0
POLICE CAREER INCENTIVE	2,132,607	1,991,056	1,852,096
COMM OF MA - VETERANS BENEFITS	315,114	230,777	295,030
COMM OF MA - PUBLIC LIBRARIES (OFFSET)	255,190	298,747	334,527
Sub-Total, All General Government:	33,678,478	37,982,818	39,698,267
Less Offset Items & Assessments:			
CHERRY SHEET OFFSETS	-457,356	-494,431	-591,401
ASSESSMENTS	-15,969,453	-17,625,379	-18,519,449
PIONEER VALLEY PLANNING ASSESSMENT	-22,813	-22,813	-22,813
Sub-Total, Offset Items & Assessments:	-16,449,622	-18,142,623	-19,133,663
Total	\$246,413,284	\$256,533,087	\$267,324,147

Lottery Aid

Lottery Aid is used to provide general-purpose financial assistance to municipalities on an equalizing basis. The formula used for distribution is based on providing cities and towns that have lower property values with proportionately more assistance. The FY 2006 Cherry Sheet provides for \$34,917,280 of aid, an increase of \$1,757,985 or 5.3%

Additional Assistance

Additional assistance provides unrestricted aid to certain communities in the Commonwealth. This category of aid has stayed constant for many years and the City will receive the same \$1,829,496 as in FY 2005.

Chapter 70

The Chapter 70 program is the major source of state aid to the Commonwealth's elementary and secondary schools. In addition to providing state aid to support school operations, it also establishes minimum spending requirements, called "Net School Spending," for each school district and minimum requirements, called "net minimum contribution," for each municipality's share of school costs.

Chapter 70 "foundation aid" is the largest local aid distribution made to the City; the state's proposed Chapter 70 aid for FY 2006 is \$225,364,023. This represents an increase of \$9,731,204 or 4.51% over FY 2005.

The City's Chapter 70 or "Foundation Aid" is the difference between the FY 2006 Foundation Budget for the City's schools and the City's Net Minimum Contribution. Both are derived from the State's complex formula for Chapter 70. In brief, foundation budget for each school system is determined based on requirements or factors for an adequate education consistent with education reform standards. The City's required local contribution also is based on state formula and is focused on principles of equity. The factors of adequacy and equity are the key components in the changes in Chapter 70 Aid each year. The FY 2006 Foundation Enrollment is based on the October 1, 2004 Pupil Report. The City's foundation enrollment increased by 44 students. The changes in the key elements for Springfield between FY 2005 to FY 2006 are:

<u>Description</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>Change</u>	<u>Change %</u>
Enrollment	28,368	28,412	44	.16%
Foundation Budget	242,805,576	253,466,520	10,660,944	4.39%
Net Minimum Contribution	26,254,659	28,100,362	1,845,703	7.03%
Chapter 70 Aid	215,632,819	225,364,204	9,731,204	4.51%

School Construction Aid

The School Building Assistance Act, as amended, provides reimbursement for several of the City's schools that have been built or renovated in recent years. The program was administered for several years by the Department of Education and has recently been transferred to the newly created Massachusetts School Building Authority. The City has several projects that have completed audit and projects that are being audited to determine the final reimbursement due to the City from the Commonwealth. Based on the reimbursement schedule and recent audits, the FY 2006 estimate for school construction assistance is \$19,201,404 which represents a decrease of \$168,922 or 1% from FY 2005 reimbursement levels.

Police Career Incentive

Under Chapter 41 of Massachusetts General Law, members of police departments, which have negotiated this benefit, receive an increase in their base pay consistent with their level of education. Police officers are awarded a ten percent increase for an associate's degree, twenty percent increase for a bachelor's degree and a twenty-five percent increase for a master's degree. This reimbursement represents the State's 50% participation in these education incentive payments. The reimbursement for FY 2006 is \$1,852,096, which is a decrease of \$138,960 or 7% from FY 2005.

Veterans' Benefits

Under Chapter 115, Section 6 the State reimburses the City 75% of payments of total expenditures for Veterans' financial, medical and burial benefits. Regulations governing veterans' benefits are promulgated by the state as well. Per the Cherry Sheet, the funding for FY 2006 is \$295,030, which is an increase of \$64,253 over FY 2005.

Real Estate Exemptions

The State reimburses municipalities for the loss of tax revenue due to real estate abatements to veterans, surviving spouses and those who are legally blind. These exemptions are authorized by the State. Pursuant to Chapter 59, Section 5, municipalities are reimbursed for amounts abated in excess of \$175 of taxes of \$2,000 in valuation times the rate, whichever is greater for qualifying veterans or their surviving spouses. Also Chapter 59, Section 5, 17c provides a flat \$175 in tax relief to certain persons over seventy years of age, minors, widows and widowers. Chapter 59, Section 5, 37a provides an abatement of \$500 for the legally blind.

State Owned Land

The State reimburses communities in which certain types of State owned land is located. Payment is for the lost tax revenue to the City for the amount of the tax on the land only. State owned land was funded at \$12,875 for FY 2006 and increase of \$2,209 or 2.1%

Local Receipts

	FY 2004 Actual	FY 2005 Budget	FY 2006 Budget	FY 2006 %
Revenue and Other Sources				
Motor Vehicle Excise Tax	\$ 8,966,277	\$ 7,752,124	\$ 7,981,624	22%
Penalties, Interest and other Taxes	\$ 9,183,367	\$ 7,590,930	\$ 9,090,930	26%
Charges for Service	\$ 7,736,640	\$ 8,693,310	\$ 10,229,980	29%
Licenses and Permits	\$ 1,836,279	\$ 2,870,203	\$ 3,294,354	9%
Fines and Forfeits	\$ 1,038,195	\$ 1,480,731	\$ 982,673	3%
Interest Earned on Investments	\$ 180,921	\$ 200,000	\$ 350,000	1%
Hotel/Motel Tax	\$ 844,579	\$ 900,000	\$ 900,000	3%
Other Financing Sources	<u>\$ 1,308,902</u>	<u>\$ 2,574,034</u>	<u>\$ 2,815,351</u>	8%
Total	<u>\$ 31,095,160</u>	<u>\$ 32,061,332</u>	<u>\$ 35,644,912</u>	

Charges for Services/Departmental Revenues

This revenue category represents fees and charges that the City imposes to offset the cost of specific services provided to the community. In recent years, in response to constraints on property taxes and limits on assistance from Cherry Sheet state aid, the City has implemented various charges and fees. Some of the major items of revenue in this category include dog pound charges, rental and recreation fees and charges, as well as various City Clerk, Towing and Storage, and City Collector fees. This category of revenue for FY 2006 is budgeted at \$10,229,980 or an increase of \$1,536,670 over FY 2005.

Permits and Licenses

Permit revenue is derived when a person or business needs to conduct a municipally regulated activity, for example, building, plumbing or electrical work. All construction and renovations in the City must be issued a building permit, which is based on the cost of construction. Permit revenue includes: City Clerk permits, weights and measures permits, street opening permits, building permits, electrical permits, and plumbing permits. This category of revenue is budgeted at \$3,294,354 for FY 2006, which is an increase of 10%; it is based on sound activity in various permitted functions and areas.

Fines and Forfeits

This category of local revenue includes parking ticket fines, other motor vehicle fines and library fines. The collection of outstanding parking fines is a sound source of local revenue. The timely collection of fines has been facilitated by the state law that violators

are prohibited from renewal of their drivers' licenses and registrations until all outstanding tickets are paid in full. The FY 2006 budgeted amount is \$982,673 which is a decrease of \$498,058 over FY 2005.

Interest on Investments

State law requires that all funds that are not necessary for liquidity be invested so as to obtain the highest possible rate of return for the period for which the funds are available for investment. The investment decision must also take safety into consideration. The City does not have reserves available for investment, but does have times when cash flows permit investment of funds. Based on anticipated cash flows for FY 2006, the interest income budget is \$350,000, which represents a \$150,000 increase over FY 2005.

Other Financing Sources

Water and Sewer Reimbursement

The City's department of public works maintains the water distribution system and the sewer collection system pursuant to a contractual agreement between the City and the Springfield Water and Sewer Commission (SWSC). The projected other financing sources for FY 2006 based on this agreement are \$1,355,000.

Transfer from Chapter 169 Trust

In order to balance revenues with expenditures permanent borrowing from The Springfield Recovery Trust Fund totals \$6,503,297 for Fiscal Year 2006.